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UNCLAS SECTION 01 OF 03 TOKYO 000389

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USTR FOR AUSTR WCUTLER, MBEEMAN, AND DLEE

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SUBJECT: AUSTR CUTLER SHARES JAPAN POST CONCERNS WITH
CABINET OFFICE SENIOR VICE MINISTER OHTSUKA

REF: A. 09 TOKYO 2890
[1](#)B. 09 TOKYO 2921
[1](#)C. TOKYO 0170
[1](#)D. TOKYO 0282

SENSITIVE BUT UNCLASSIFIED. CONTAINS BUSINESS SENSITIVE
INFORMATION.

[1](#)1. (SBU) SUMMARY: On February 24, Assistant United States Trade Representative (AUSTR) Wendy Cutler raised USG concerns with the GOJ's draft outline on postal reform legislation with Cabinet Office Senior Vice Minister for Financial Services and Postal Reform Kouhei Ohtsuka, a key architect behind the document. She noted that the draft language strongly suggested Japan was moving farther away from establishing a level playing field between Japan Post and private sector companies and urged Japan to seriously consider both U.S. concerns and Japan's WTO obligations as it proceeds with postal reform. Ohtsuka, who asserted he was well aware of the USG position, characterized postal reform as the most challenging political issue currently facing Japan. Cutler and Ohtsuka agreed to work together cooperatively and quietly to craft a win-win solution and to prevent postal reform from becoming politicized. END SUMMARY.

POSTAL REFORM THE MOST CHALLENGING ISSUE FACING JAPAN

[1](#)2. (SBU) AUSTR for Japan, Korea, and APEC Affairs Wendy Cutler met with Cabinet Office Senior Vice Minister Kouhei Ohtsuka February 24 to share USG concerns with the GOJ draft outline on postal reform legislation. Ohtsuka, who authored the draft, said he welcomed the opportunity to exchange views on the draft and said he had read the public comment on postal reform submitted last December by the USG. AUSTR Cutler acknowledged Ohtsuka's key role on this issue and expressed appreciation for the open and transparent manner in which the GOJ has thus far proceeded on postal reform. She also noted her understanding that the draft was an attempt to balance divergent, competing, and politically sensitive interests on the issue.

13. (SBU) Ohtsuka acknowledged the difficulty with assembling the draft. He went on to say that postal reform is the most challenging political issue currently facing Japan, and expressed his regret the issue has not always moved forward in a logical way. Reiterating points made during his meeting earlier this month with the DCM (Ref D), Ohtsuka emphasized the diverse nature of financial systems around the world and the need to recognize Japan's postal system as a unique example in that regard.

14. (SBU) AUSTR Cutler reiterated the USG does not take a position on whether Japan Post should be privatized. Rather, she focused her comments on the USG's long-standing concerns about the preferential treatment of Japan Post compared to private companies in the insurance, banking, and express delivery sectors. AUSTR Cutler went on to emphasize the USG was not seeking special treatment for U.S. companies. Rather, the USG seeks equal treatment so all private companies can compete with the Japan Post group companies on an equal basis. AUSTR Cutler also cautioned Japan should bear in mind its international obligations under the WTO as it moves forward with its review.

15. (SBU) Ohtsuka said he understands the USG position but asked that Washington bear in mind three points. First, the GOJ is not moving away from the basic policy of privatizing the Japan Post group companies. He did say, however, that improvements to the overall system are necessary and will take time before this objective is achieved. Second, the GOJ

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aims to improve and make more stable Japan's overall financial system, a key component of which are the Japan Post financial companies. Ohtsuka claimed that although Japan may not be able to satisfy 100 percent of USG demands as it moves forward with the reform, developments are moving in a good direction. Third, Ohtsuka said the GOJ will endeavor to ensure a level playing field, but due to certain constraints stakeholders may not be completely satisfied. He reiterated he will remain open to dialogue as reform progresses, with the hope this will lead to greater understanding and better reform.

MAJOR CONCERNS WITH THE CURRENT DRAFT OUTLINE

16. (SBU) AUSTR Cutler said the USG is increasingly concerned the GOJ is moving in a troubling direction with its postal reform, and cited the following examples:

- 1) lifting of the ban "in principle" on the sale of third sector insurance products;
- 2) unclear moves on providing access for private sector companies to the Japan Post network;
- 3) raising the caps on postal insurance policies and postal savings deposits;
- 4) allowing the postal entity to provide both financial and non-financial services, which is prohibited for private sector companies;
- 5) special tax treatment for postal companies; and
- 6) creating a special law governing the holding company, which would include a regulatory special carve out for small post offices.

While explaining this was not an exhaustive list, AUSTR Cutler cautioned such policies appeared to move Japan further away from establishing a level playing field and call into question Japan's compliance with its WTO GATS national treatment obligations.

¶17. (SBU) On third sector insurance products, Ohtsuka thought it unlikely Japan Post Insurance would get into this sector right away. He did admit, however, that this is an area of increasing importance to Japanese citizens and that he expects many companies would enter this market. Ohtsuka speculated Japan Post Insurance would probably seek to partner with private sector companies in this business. He gave assurances there would be a level playing field going forward on this issue.

¶18. (SBU) Regarding access to the postal network, Ohtsuka said the Japan Post financial companies should be given the ability to partner with private sector companies to distribute products through the Japan Post network; this would create a win-win situation for both sides. He pointed out that some private sector companies are already selling products at a limited number of post offices. Ohtsuka asserted increased access would be good for both the postal entities and the private sector companies.

¶19. (SBU) On the issue of raising caps on policies and deposits, Ohtsuka claimed the current cap is too low for users. Once privatization is completed, all caps must be eliminated, he said, as is called for in the current postal privatization law. Ohtsuka repeated that full privatization would take some time. Therefore, some level of cap will be maintained.

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¶10. (SBU) On the remaining concerns specifically elaborated by AUSTR Cutler, Ohtsuka responded by repeating that the GOJ's objective is for the Japan Post group companies to become private companies at some point in the future. For the time being, Japan Post Insurance and Japan Post Bank should be private entities with "high public interest," said Ohtsuka. By emphasizing they will be treated as ordinary companies, Ohtsuka appeared to indicate the continuing application of the Insurance Business Law and Banking Law to these companies. Ohtsuka pointed out that the postal reform legislation is still being worked on and encouraged AUSTR Cutler to follow how these elements will be reflected in the final legislation.

WORKING TOGETHER TO AVOID POLITICIZATION AND WTO DISPUTE

¶11. (SBU) Ohtsuka acknowledged the importance of Japan's WTO obligations. Additionally, he wants to avoid a situation where postal reform becomes either a bilateral political issue or the subject of a WTO dispute. Ohtsuka repeatedly noted the unique character of the postal system in Japan's financial system and that the GOJ is taking steps to improve the overall financial system, which, he said, included moving toward a more level playing field.

¶12. (SBU) AUSTR Cutler said she was encouraged by Ohtsuka's understanding of Japan's WTO obligations. She urged Japan to seriously consider U.S. level playing field concerns and Japan's WTO obligations as it moves forward. AUSTR Cutler emphasized the importance of working together cooperatively and quietly toward a win-win solution that avoids political conflict and WTO litigation.

¶13. (U) AUSTR Cutler cleared this message after departure from Post.
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